Press Release

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Global, national AAA ratings not comparable, says CRISIL

They serve different investor segments ■ Default and stability rates define rating quality

Comparing the 276 AAA ratings that Indian credit rating agencies (CRAs) have assigned with nine by S&P Global Ratings or 53 by Moody's is erroneous, and would tantamount to equating differing scales such as Celsius and Fahrenheit.

By construct, credit ratings can have – and do have – different scales. That's because they are *relative* assessments of credit risk. And the *relative benchmarking* can be national, global or regional.

Investors in developed economies such as the US and Europe consider investment options across the world. Credit risk assessments that benchmark issuers across the world on a global scale (AAA to D) offer comparable information to them and enables their investment decisions.

If ~32,500 rated Indian companies were to be assessed on the global scale, their ratings will be boxed on a far narrow bound between BBB category and D on the global scale, because India's sovereign rating (in the BBB category) will usually serve as a ceiling.

On the other hand, a national rating scale affords granular benchmarking of domestic issuers on a 20-point scale (AAA to D) and the sovereign, which has the flexibility to print local currency, is pegged at AAA on this scale. This provides valuable information to investors in local currency domestic debt such as insurers, pension funds, banks and mutual funds.

Further, AAAs in India make up for only 0.85% of the overall rated universe, which is far lower than corresponding metrics across other national scale ratings in countries such as China, Taiwan, Thailand and South Korea (*see annexure*).

To be sure, there has been a steady decline in the number of 'AAA' rated companies globally. At S&P Global Ratings, it reduced from 89 a decade back to nine as of January 1, 2018. For Moody's, it went from 170 to 53.

The high cost of maintaining AAA ratings has contributed to this. For an entity to be rated AAA on the global scale, it has to enjoy an extraordinarily strong balance sheet that can withstand stresses on a world scale, and manoeuvre complex international business environments. That puts severe limits on debt levels and gearing headroom for growth.

Says Gurpreet Chhatwal, President, CRISIL Ratings, "Over the past decade or more, companies in the developed economies have relied more on debt in their quest to increase shareholder value. When reliance on debt increases, financial risk also rises leading to a lowering of credit ratings. The width and depth of the corporate bond markets in these geographies, and ultra-low borrowing costs over the past decade, have also encouraged the shift to debt-driven growth."

Not surprisingly, AAA rated companies accounted for less than 5% of bond issuances in the US in 2017, A and BBB accounted for over 60%, and speculative grade around 20%.

Pertinently, India and other emerging markets do not have a deep and wide corporate bond market. Also, large investors, including insurers and pension funds, can put money only in highly rated paper as per their fiduciary remit.

As a result, 85-90% of the bond issuances in India are by AAA and AA rated (assigned on the national scale) companies. Beyond these categories, the financial flexibility to tap capital market instruments drops drastically. That's why in India, there is a strong incentive for companies to maintain better credit profiles at the top end of the rating spectrum on the national scale.

Companies assigned AAA ratings by CRISIL are characterised by one or more of the following qualities: strong business and robust financial profiles, strong parents that extend business and financial support, and public sector undertakings that enjoy government backing.

It's also important to note that the quality of ratings on any scale is best judged by the default and stability rates of the ratings, rather than the absolute number of AAAs.

Says Somasekhar Vemuri, Senior Director, Centre of Excellence, CRISIL Ratings, "The 1- and 3-year default rates of 'CRISIL AAA' rated entities are 0%. They are marginal for global CRAs as well. And the 1-year stability rate for CRISIL AAA ratings in the latest ten-year period (2007-17) is also quite high at ~98%."

Annexure
Comparison of number and proportion of AAAs on national scale ratings across countries

Country	Rating agency	Number of ratings in portfolio	Number of AAA ratings	AAA ratings as a % of portfolio	Year	Share in total rated issuers in the country
China	All CRAs	3959	507	13%	2015	100%
India	**All CRAs**	**32534**	**276**[1]	**1%**	**2019**	**100%**
Taiwan	Taiwan Rating Corp	139	12	9%	2018	77%
Thailand	TRIS Ratings	167	8	5%	2017	75%
South Korea	Korea Ratings	423	71	17%	2019	68%
	Korea Investor Services	502	63	13%	2019	NA

Source: Websites of respective CRAs; for China info based on BIS Report of June 2017; market share info from respective websites/ Asia Credit Rating Guidebook 2018
[1]Data from other CRAs collated on a best effort basis; primarily includes issuers rated AAA without considering external credit enhancement

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About CRISIL Limited
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We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 110,000 MSMEs have been rated by us.